



Learning for Jobs

**OECD Reviews of Vocational
Education and Training**

ENGLAND AND WALES

**Kathrin Hoeckel, Mark Cully, Simon Field,
Gábor Halász and Viktória Kis**

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ORGANISATION FOR ECONOMIC CO-OPERATION AND DEVELOPMENT

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ACKNOWLEDGMENTS

The review of England and Wales took place between February and June 2008. The OECD is very grateful to the national co-ordinators, in particular Roger Cotes from DIUS, for their work in providing information and advice and organising the visits. We would also like to thank the many people in different parts of the country who, during our visits, gave their time to welcome us at their schools and other institutions and answered our questions. We are particularly grateful to Mihály Fazekas who made valuable contributions to the draft of the UK VET policy review.

Summary: Strengths, Challenges and Recommendations

This review of vocational education and training (VET) in England and Wales has been prepared as part of “Learning for Jobs”, the OECD policy study of VET – a programme of analytical work and individual country reviews designed to help countries make their VET systems more responsive to labour market needs. The review assesses the main challenges faced by the VET system and presents an interconnected package of policy recommendations, in terms of the challenge, the recommendation itself, supporting arguments and suggested aspects of implementation, as well as potential resource implications.

Strengths

- England and Wales are committed to a step improvement in the level of workplace skills.
- Substantial resources have been made available for this task.
- The conscious attempt to engage employers is commendable.
- VET policy making in England and Wales is self-evidently dynamic and innovative.
- The system is flexible and allows for tailor-made training solutions for employers.

Challenges

- The meaning of employer engagement is very fluid.
- Few countries have achieved strong employer engagement without an equally strong apprenticeship system, which remains elusive in England and Wales.
- In spite of the government’s declared intention to have much VET employer-led, the delivery of the Leitch targets will require a very strong lead from government.
- Policy structures are both more complex and more unstable than in most other OECD countries, and this inhibits employer engagement.
- A demand-driven system may imply more of a market in providers. But attempts to open up the market have been halting and the effects uncertain.
- While there is a substantial base of data and analysis, it remains fragmented, with inadequate attention to international experience.
- The current sharp economic downturn is imposing a number of pressures on the skills system.

Recommendations

1. Priorities for employer engagement should be clearly defined and the rationale for seeking that engagement should be set out by the governments of England and Wales. Evidence on employer engagement should be further developed. Fragmented surveys should so far as possible be consolidated and co-ordinated.
2. Given that complexity and volatility in the VET system hinder employer engagement, the institutions of the VET system should be simplified and stabilised. We welcome and support the proposals of the UK Commission for Employment and Skills (UKCES) in this respect. These proposals need to be sustained and further developed.
3. As a way to engage employers so as to reach the skills targets identified in the Leitch report, governments in England and Wales should explore measures including those designed to reduce the cost of training, the establishment of a stronger evidence base to encourage employer support for training, and, possibly, the use of compulsive measures including training levies.
4. Attempts to foster employer engagement in England and Wales should be closely linked to the development of the apprenticeship system.
5. Governments in England and Wales should take account of previous experience, including international experience, when extending the market in VET provision. In particular users need good information about the quality of different programmes and institutions.
6. England and Wales should take account of international evidence more routinely in its policy-making process. Consideration should be given to the establishment of a national VET institution to oversee VET research and analysis.

Chapter 1

Introduction

This chapter describes OECD work on VET and the review in England and Wales, summarises the main features of the VET systems and sets out an assessment of their strengths and challenges.

1.1 The OECD policy review of England and Wales

This review is part of ‘Learning for Jobs’ a programme of work on vocational education and training (VET) in OECD countries (see Box 1.1). Its terms of reference are at Annex A.

Box 1.1 Learning for Jobs: the OECD policy review of Vocational Education and Training

This exercise seeks to help countries increase the responsiveness of VET systems to labour market requirements. It aims to improve the evidence base, identify a set of policy options, and develop tools to appraise VET policy initiatives.

A programme of analytical work draws on evidence from all OECD countries. It includes an international questionnaire on VET systems, literature reviews of previous OECD studies and the academic literature on topics such as costs and benefits of VET, indicators to assess the quality of VET provision and analysis of labour market outcomes based on statistical data from labour force surveys and PISA (the OECD’s Programme on International Student Assessment).

Country policy reviews that provide country-specific policy recommendations were carried out in Sweden, the United Kingdom (England and Wales), Hungary, Australia, Norway, Mexico, Korea and Switzerland between the end of 2007 and the end of 2008.

The results of both the analytical work and the country reviews fed into the initial comparative report which is available on the OECD website.

A second phase of this work, with further country reviews in Austria, Belgium (Flanders), the Czech Republic, Germany, Ireland and the United States (South Carolina and Texas), will take place in 2009 and 2010. The final comparative report, drawing together all the conclusions of the study will be published in 2010.

See also: www.oecd.org/edu/learningforjobs.

At the outset of this exercise, the authorities in England and Wales were invited to complete a detailed questionnaire. Equipped with the responses and other background information, two members of the OECD Secretariat, joined by two external experts (see Annex A for biographical details), visited England and Wales on 18-22 February 2008. On 24 June 2008 three members of the OECD Secretariat visited representatives of the English and Welsh governments and other stakeholders in London in order to discuss tentative policy recommendations. This review presents their recommendations, with supporting analysis and data.

The review takes place at a time of increased attention to VET policy following the publication of a major policy report conducted by Lord Leitch and commissioned by the UK government (HM Treasury, 2006). The OECD review focuses on the issue of employer engagement in VET. The topics to be addressed were defined in the terms of reference agreed with the authorities in England and Wales. They are limited to issues on which the review could draw on international experience, or could otherwise usefully add value to the domestic policy debate. The recommendations concern both England and Wales.

1.2 The structure of the report

This chapter places the review of England and Wales in the context of the OECD programme of work on VET, outlines the structure of the report, describes the main features of the VET systems in England and Wales, and examines its strengths and challenges. The following chapter proposes six policy recommendations.

Each policy recommendation is set out as:

- *The challenge* – the problem that gives rise to the recommendation.
- *The recommendation* – the text of the recommendation.
- *The supporting arguments* – the evidence that supports the recommendation.
- *Implementation and resource implications* – a discussion of how the recommendation might be implemented and the potential resource implications.

1.3 A snapshot of VET in England and Wales

The VET systems in England and Wales

England has three government Departments responsible for VET policy making: *i*) the Department for Business, Innovation, and Skills (BIS) deals with VET policy for post-19-year-olds; *ii*) the Department for Children, Schools and Families (DCSF) deals with VET policies through its responsibility for the education of 14-to-19-year-olds; and *iii*) the Department for Work and Pensions (DWP) is concerned with VET in the context of employment policy.

Within the UK's framework of devolved government, in Wales VET policy is the responsibility of the Welsh Assembly Government (WAG) which deals with all the main aspects of VET, from curriculum development to funding. While there are some similarities between VET arrangements in England and Wales there are also important institutional differences and scope for different policy objectives.

Over the last decade, UK governments have emphasised the increasing need to invest in education and skills on the grounds that such investment is essential to economic competitiveness. While this emphasis has covered a range of education programmes, particular attention has been paid to vocational training. Public spending on VET doubled between 2002 and 2004 (DCSF, 2008) paralleled by a series of policy reforms.

Sector Skills Councils (SSCs) play a key role in the development and approval of vocational qualifications in the UK and (in England) in advising Learning and Skills Councils (LSCs) on funding decisions. The objectives of the Sector Skills Councils include that of offering employers an opportunity to influence the skills system through the development of qualifications and training relevant to their needs, helping employers with their workforce development needs, maximising investment in skills, and providing high quality labour market information that is up-to-date and relevant to current challenges.

In England, LSCs are responsible for the funding of all government-supported VET except higher education funding, and for all post-compulsory education in the public sector. From 2008/09, all funding will be integrated into three major schemes: 16-18; adult learner responsive; and employer responsive (LSC, 2008a). The government has

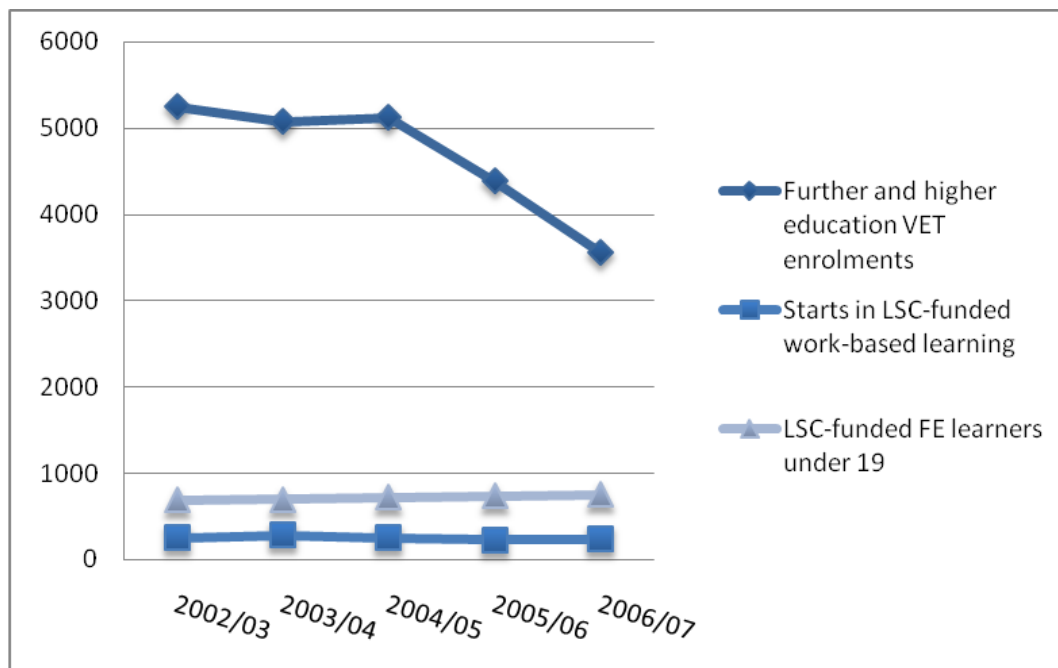
launched a consultation process to replace LSCs with skills funding agencies. In Wales, the WAG aims to fund VET so as to ensure equitable treatment for schools, colleges and training providers. Both in England and Wales, funding formulas take into account various elements of costs: number of students, type of courses offered, factors relating to the location of the institution, the level of social deprivation, and student achievement in terms of qualifications.

In the United Kingdom, approval of qualifications is the responsibility of separate national bodies and qualification systems differ significantly. In England, there are some 2 000 vocational qualifications for students under age 19 of which around half fall under the National Vocational Qualifications (NVQ) framework. NVQs are competence-based qualifications covering almost every industry and occupation. A new system of vocational qualifications approvals is under development, informed by the SSCs' sector qualifications strategies.

The main public providers for VET qualifications are further education colleges, school sixth forms, and sixth form colleges. School sixth forms and sixth form colleges traditionally focus on general education but also offer a narrow range of vocational courses and form partnerships and collaborative agreements with local colleges of further education. Further education colleges deliver approximately half of all government-funded VET provision for both pre-employment and in-employment training (DCSF, 2008). They include tertiary colleges, specialist colleges and colleges which cater for people with learning difficulties or disabilities. There are over 10 000 private training providers in England, offering a diverse range of training for the public and private sectors.

The United Kingdom has two apprenticeship schemes: an apprenticeship at Level 2 leading to qualifications including a National Vocational Qualification (NVQ) at Level 2, and advanced apprenticeship at Level 3 leading to qualifications including a NVQ Level 3. Over the past five years overall VET student numbers have fallen but the number of apprenticeships has increased (see Figure 1.1).

Figure 1.1 VET enrolment in England (2002-07) in thousands



Source: Further Education (FE) Book of Facts, 2008, Tables 1, 2, 6.
www.dcsf.gov.uk/rsgateway/DB/STA/t000667/index.shtml

Low unemployment in the UK in the past decade has given way to fast-rising unemployment as the global recession has bitten. Productivity levels remain comparatively low and social and regional disparities are of concern.

Employer engagement in VET

UK employers engage with the VET system by advising on VET policy, by helping to define needed competencies, and as consumers and providers of training. The main institution for expressing employers' views on VET to national policy makers is the newly established UK Commission for Employment and Skills (UKCES). It is intended to strengthen the voice of employers in VET reforms and implementation, its role includes that of advising on how UK skills and employment programmes can respond effectively to labour market needs. A commissioner for Wales represents Welsh interests at the UK level and also chairs a Wales Employment and Skills Board. Moreover, employers, via the new or re-licensed SSCs, are involved in formulating the NVQ framework and in identifying future skills shortages. Employers in England also have representation in local LSCs and can influence local funding priorities. Finally, individual employers are directly engaged in the provision of VET through apprenticeships in England and Wales, the Train to Gain programme in England (Box 1.2) and the Workforce Development Programme in Wales.

Recent policy developments

Box 1.2 The Train to Gain programme in England

The Train to Gain programme, introduced in England in 2006 following a National Employer Training Pilots period, is a national skills service that helps all employers to improve the skills of their employees as a route to improving their business performance.

Skills brokers identify the skills that are needed to improve the business. They create a tailored package of training, find reliable local training providers and relevant funding to complement employers' investment in training and evaluate the training to ensure real results. The programme is weighted towards hard-to-reach employers, defined as those who are not recognised "investors in people" and have not accessed substantial vocational training leading to a qualification within the preceding 12 months. Over half of the employers who access the free brokerage service are to be in this category.

Train to Gain offers full funding for Level 2 qualifications, and partial funding for Level 3 qualifications, apprenticeship programmes and leadership and management skills. Small businesses (less than 50 employees) can receive support for costs arising from staff spending time off work for training.

The new offer for SMEs was announced on 21 October 2008, making them the top priority for Train to Gain funds including GBP 350 million growth over the next two years. Private sector SMEs and employees of third sector SMEs are eligible. The offer includes:

- Funding for stand-alone accredited training modules, and part-qualifications or "thin" qualifications, in business-critical areas to raise productivity, including: business improvement, business systems and processes, team working and communications, sales and marketing, IT User, IT support, customer service, new product design, finance and credit, cash flow and profit management, and risk management.
- From January 2009 – Fully funded Level 2 qualifications and subsidised level 3 qualifications, regardless of whether the employee already has a qualification at this level.
- From 1 November 2008 extending DIUS's leadership and management programme so that more SMEs can benefit from it, including in companies with just 5-10 workers (employers continue to make a match-funded contribution as now).

Train To Gain has engaged with 127 000 students since its launch in April 2006 and improved the skills of over 1.2 million adults. Funding will increase from GBP 520 million per year in 2007-08 to over GBP 1 billion by 2010-11.

Source: www.traintogain.gov.uk/; for latest developments: www.lsc.gov.uk/providers/ttg/latest/

Recent developments include: *i*) reconsideration of the Train to Gain programme (see Box 1.2) to allow for greater flexibility and more funding; *ii*) national skills academies, which are employer-led, sector-based education and training organisations designed to attract significant employer investment and sponsorship (already established in England, due to be developed in Wales in 2009); *iii*) the 2007 Skills Pledge programme in England (and a similar scheme operating in Wales), in which a company's leadership makes a voluntary public commitment to support the development of basic skills for all its employees; *iv*) the pilot version of Skills Accounts which entitles individual learners (in England) to a voucher to purchase training at approved providers; *v*) an initiative to make some form of education or training compulsory for everyone up to the age of 18; and *vi*) all employees' right to seek training, the so called 'Time to Train' programme (DIUS, 2008).

1.4 Strengths and challenges of the VET system in England and Wales

Strengths

- England and Wales are committed to a step improvement in the level of workplace skills, as spelled out in the Leitch report (HM Treasury, 2006) with clear achievement targets and concrete implementation plans (DIUS, 2007).
- Substantial resources have been made available in particular through the Train to Gain programme in England and the Welsh Workforce Development Programme. Funding for Train to Gain is planned to increase to over GBP 1 billion by 2010-11.
- The conscious attempt to engage employers is commendable.
- VET policy making in England and Wales is self-evidently dynamic and innovative.
- The system is flexible and allows for tailor-made training solutions for employers, including company-specific qualifications that are nationally recognised.

Challenges

- Despite the prominence of employer engagement in public discussion, its meaning is very fluid. There is no common understanding of why it matters, or of the obstacles to better employer engagement and ways to overcome them.
- Few countries have achieved strong employer engagement without an equally strong apprenticeship system. In England and Wales, despite some recent advances, apprenticeship is not as common as in some other countries, and dropout rates are higher.
- Alongside the government's declared intention to have much VET employer-led, meeting the Leitch targets will also require a very strong lead from government.
- Policy structures are both more complex and more unstable than in most other OECD countries. This inhibits employer engagement.
- The more demand-driven system envisaged in the Leitch report may imply more of a market in providers. However, attempts to open up the market, particularly in England, have been halting and the effects uncertain.
- While there is a substantial base of data and analysis, it remains fragmented, with inadequate attention to international experience.
- The current sharp economic downturn is imposing a number of pressures on the skills system.

Chapter 2

Policy Recommendations

This chapter sets out six recommendations designed to increase employer engagement in England and Wales and enhance the VET system to meet labour market needs. Clearer priorities for employer engagement are desirable – in particular to realise employer commitment to the upskilling required by the Leitch targets, along with a sequence of steps to deliver those priorities. These include, a reduction in the complexity and instability of the system, stronger measures to engage employers in order to reach the skills targets, clear acknowledgement of the central place of apprenticeship in developing engagement and close attention to international experience when opening training provider markets to competition. The establishment of a national centre for VET research and analysis might usefully be considered.

2.1 Priorities for employer engagement

The challenge

Employer engagement is central to the current UK skills strategy. The active support and engagement of employers is necessary to up-skill the current workforce, develop workplace training, and define the content of job-relevant VET qualifications and programmes. At the request of England and Wales, the OECD agreed to focus its VET review on this issue.

In spite of its importance, ‘employer engagement’ is an expression which is used fluidly in England and Wales. Its coverage ranges from employer involvement in high-level policy making to specific local demands for training. There is no agreed set of key indicators on employer engagement and its strength; and various surveys of employers cover different but overlapping topics. Moreover, there are no clearly established sets of expectations on employers. There is no shared analysis and understanding of the barriers to employer engagement. Critically, there is a clear tension between the government’s emphasis on employer engagement in the form of an employer-led system and the strong lead which government will need to provide to meet the Leitch targets.

Recommendation 1

Priorities for employer engagement should be clearly defined and the rationale for seeking that engagement should be set out by the governments of England and Wales. Evidence on employer engagement should be further developed. Fragmented surveys should, so far as possible, be consolidated and co-ordinated.

Supporting arguments

Four arguments support this recommendation. First, given fluidity in meaning, government priorities for “employer engagement” need to be set. Second, expectations of employers should be clarified. Third, the tension in government policy between a commitment to the Leitch targets, which employers have not fully endorsed, and a commitment to a system in which employers have greater influence needs to be addressed. Fourth, employer surveys will be more powerful if they are consolidated and co-ordinated.

Given fluidity in meaning, government priorities for employer engagement need to be set out

In England and Wales, the term “employer engagement” is fluid in its application. Various definitions have been proposed. The Skills for Business Network has suggested a broad definition of employer engagement as “any form of contact between any organisation and an employer, that attempts to effect a change in the knowledge, understanding or behaviour of either, or of a third party, for some purpose related to the wider public benefit” (Cooper, Mackinnon and Garside, 2008, p. 7). The Learning and Skills Development Agency (LSDA) has proposed a typology of employer engagement, distinguishing between employers’ roles as stakeholders, consumers and strategic partners (Macleod and Hughes, 2005). The Skills for Business Network has developed

this typology further and added the category of employers as providers (Cooper, Mackinnon and Garside, 2008).

Table 2.1 proposes a disaggregated and extended typology of employer engagement in VET policy together with examples of institutional settings in a number of countries. Such engagement can range from advisory roles to decision making power. It may be voluntary or mandatory, be exercised collectively or individually, and take place on different levels ranging from local or firm-specific initiatives to national representation.

Table 2.1 Employer engagement in VET

	Tasks and actions	Institutional setting	Country examples
Agenda setting	Analysing evidence Recognising problems Determining issues for reform	Collectively through employer organisations, associations, chambers Individually, using employer surveys and opinion polls	Advisory Council for Initial Vocational Education and Training, Denmark (Rådet for de Grundlæggende Erhvervsrettede Uddannelser) Employers' surveys <i>e.g.</i> in the United Kingdom and Australia
Policy formulation	Reforming the regulation, structure and funding of the VET system Developing/updating the qualifications framework Developing curricula, content and duration of VET courses Determining number of VET places	Collectively through employer organisations, associations, chambers School governing bodies which include employers Regional or sectoral bodies	Advisory Council for Initial Vocational Education and Training, Denmark VET partnership (federal government, cantons and social partners) in Switzerland Sectoral employer organisations in Australia and the United Kingdom Regional VET centres in the Netherlands, Regional development and training committees in Hungary
Policy implementation	Promoting VET <i>e.g.</i> by hosting interns Delivering on-site training Sponsoring training for employees Examining student performance	Individual employers offering workplace training (including sector-wide basic practical training), apprenticeships, or releasing staff to supply VET teachers to providers Individual or collective financing, under voluntary or mandatory arrangements	Apprenticeships in dual-system countries Industry courses in Switzerland Training levies in Hungary Final examination in the workplace, <i>e.g.</i> in Germany
Policy evaluation	Assessing the quality of VET outputs Assessing student outcomes	National VET institutions Collective employer bodies Individual employers (<i>e.g.</i> through surveys)	KRIVET, BIBB, NCVET, etc. Surveys of employer satisfaction in Australia and the United Kingdom

Given this fluidity, exhortations for more ‘employer engagement’ may be unhelpful, particularly as some types of employer engagement in VET may be undesirable – as when employer influence narrows training down to employer-specific skills at the expense of the transferable skills which will be more useful both to the worker and to the UK economy. We would therefore propose that governments of England and Wales set out clear priorities for the type of employer engagement they wish to achieve, and a strategy for achieving it. One clear priority is employer commitment to up-skilling. Since the Leitch targets are unlikely to be realised without this commitment it should be a priority for government.

Clearly establish rights and responsibilities of employers to improve their engagement

An ‘employer-run’ system is different from an ‘employer-led’ system, and active employer engagement may be limited even in a system that is responsive to employer needs without their active contribution – an option preferred by many employers. During the visits in England and Wales, the OECD team heard employers complain about misunderstandings and mismatches between what they desire and what government offers. Clearer priorities for employer engagement are necessary if it is to become a policy target and set measures of success as a basis for evaluation. Expectations about both employers’ rights and responsibilities in respect of engagement need to be clarified.

In some other OECD countries such clarity exists. In Switzerland for example, VET legislation precisely determines both the rights and responsibilities of employers. Article 1 of the 2005 VET legislation defines VET as a joint task of the federal government, the cantons and professional organisations. Additionally, the law stipulates that employers are exclusively responsible for determining the content of higher VET examinations. Employers are also part of a VET Commission that advises government bodies and evaluates VET projects.

Resolving a tension in government policy

As indicated, there is a tension between the stated objective of an employer-led system and a top-down government-led drive to promote the skills agenda and realise the Leitch targets. One example of this tension is the Sector Skills Councils (SSCs). These are primarily employer bodies, but operate under license from the government and under contract from public funds in the UK. Although it was intended that government funding would only be necessary at the outset, they have remained almost entirely dependent on government funding (Payne, 2008). In 2006, only a small proportion (6.8%) of SSC income came from industry contributions (SSDA, 2006b). It has been suggested that their performance in terms of representing the employers in their sectors is patchy (SSDA, 2006a) and employer surveys have shown that employer awareness and confidence in SSCs varies, with small employers being generally less aware and confident than larger establishments (SSDA, 2006a). The current UKCES work aiming at relicensing them could tackle some of these problems and should be carried out with rigour. However, establishing a well functioning, institutional structure of employer engagement typically needs time.

As proposed above, one way of resolving this tension is for government to seek the engagement of employers in the upskilling implied by Leitch as a strategic priority. If that engagement is secured then implementation can be employer-led. In the absence of that

engagement, government will be faced with a profoundly uncomfortable dilemma – whether to abandon the Leitch targets, or adopt a more coercive government-led strategy. This point is discussed further in Section 2.3 below.

Employer surveys could be more powerful if consolidated and coordinated

Employer surveys are a key tool for monitoring employer engagement and learning about possible barriers. The National Employer Skills Survey, managed by the LSC, is the major tool here. It is a telephone survey of around 80 000 firms and was conducted in 2003, 2004, 2005 and 2007. The 2007 study was undertaken via telephone followed by an interview of a subsample with about 7 000 employers that had arranged training.

At the same time, there are a number of other employer surveys, both government and private sector led, covering a diversity of topics. With these points in mind, more consolidation and co-ordination of employer surveys, at least within the public sector, would be constructive for many purposes, but particularly as a means of developing clear and commonly understood indicators of employer engagement. The SSDA explains the relatively low response rate to its survey by reference to other surveys which compete for employers' time and attention.

Implementation and resource implications

Implementation of this recommendation requires the government to decide on its priorities for employer engagement. These priorities then require clear presentation to outside stakeholders – particularly employers.

2.2 Complexity and instability in the VET system

The challenge

VET systems in all countries are characterised by multiple stakeholders – not only the usual “education” stakeholders of students, colleges, teachers and government funders, but also employers and trade unions, and within government, departments with responsibilities for different aspects of vocational training.

In England and Wales, VET policies are more complex than in most other OECD countries. In England several ministries are currently responsible for VET; in 2007 the former Department for Education and Skills was split into the Departments of Universities, Innovation and Skills (DIUS) and the Department of Children, Schools and Families (see Section 1.3). In 2009 the responsibilities of DIUS were inherited by the Department for Business, Innovation and Skills (BIS). In Wales, VET policy and execution is the responsibility of the Welsh Assembly Government (WAG) into which several other institutions have been merged over the last years. Sector Skills Councils (which have a UK-wide remit) operate alongside various other national employer organisations (the CBI, the Business Council of Britain, and the British Chambers of Commerce) and regional development agencies. A new UK Commission for Employment and Skills (UKCES) has been established, and has taken over the functions of the Sector Skills Development Agency. The Learning and Skills Council used to have national and regional representation but is being replaced by a new Skills Funding Agency. The Adult

Learning Inspectorate, Ofsted and the Qualification and Curriculum Authority also play a role.

A wide variety of private and public channels fund training, making it difficult to find the appropriate funds for specific needs. The LSC's 2008-09 guide on funding (LSC, 2008a) contains over 200 pages of principles, rules and regulations. In addition, regional development agencies provide a range of support programmes, and Jobcentre Plus provides subsidies to benefit claimants recruited by employers. The English Train to Gain programme (see Box 1.2) provides government funds to employers under certain criteria. While there is no general training levy, different sectors have introduced different forms of levy-type agreements.¹ Various incentive mechanisms such as the Skills Pledge, Investors in People and Train to Gain Sector Compacts overlap.

The complexity of funding has been increased by linkages with the system of qualifications and its ongoing reform, which includes a trend towards modularisation of qualifications, each module of which requires separate funding. In England, the National Qualifications Framework is being transformed into a Qualifications and Credit Framework (QCF) that will break down qualifications into smaller learning units, so that individuals can learn and accumulate credits over time, as is already the case in Scotland and Wales. While this reform allows some reduction of complexity at the level of “brand names”, it comes at the price of creating a second layer, “credits”. The large number of NVQ qualifications (currently over 1 000)² makes it difficult for employers to understand the labour market value of any particular qualification. Around 30 companies have also acquired the right to award publicly recognised qualifications through partnerships with existing awarding bodies (*e.g.* further education colleges or universities). These qualifications originate with the training needs of the company but, like all other vocational qualifications, they fail to be approved by SSCs as meeting the needs of the sector as a whole.

Various institutions on different levels have produced many documents proposing policy objectives for the VET system.³ As discussed in Section 2.1, several definitions of employer engagement circulate and priorities are unclear.

The institutional landscape is not only complex but also volatile. Within the last few years standards for providers have been introduced and then replaced with new labels⁴. The industry bodies that represent employer needs have undergone various reforms. In England alone, industry bodies have been reorganised and renamed five times in the last

¹ The Business Support Simplification Programme, announced in 2006, aims to reduce the number of support schemes the government offers employers from 3 000 to less than 100 by 2010.

² www.dcsf.gov.uk/section96/index.shtml.

³ Two White Papers, *21st Century Skills* (DfES, 2003), *Skills: Getting on with Business, Getting on at Work* (DfES, 2005b), preceded the publication of the Leitch review, *Prosperity for all in the Global Economy* (HM Treasury, 2006), and the government's implementation plan, *World Class Skills: Implementing the Leitch Review in England* (DIUS, 2007). At the same time, the *14-19 Education and Skills White Paper* (DfES, 2005a) and *Further Education: Raising Skills, Improving Life Chances* (DfES, 2006) as well as *Raising Expectations: Staying in Education and Training Post-16* (DfES, 2007) have been published. Wales has its own publications setting out a skills strategy.

⁴ In England, Centres for Vocational Excellence are being phased out following the introduction of the Training Quality Standard for employer responsiveness and vocational excellence.

30 years (West and Steedman, 2003). This is the downside of an innovative and ambitious policy-making environment.

Recommendation 2

Given that complexity and volatility in the VET system hinder employer engagement, the institutions of the VET system should be simplified and stabilised. We welcome and support the proposals of the UKCES in this respect. These proposals need to be sustained and further developed.

Supporting arguments

This recommendation is supported by four arguments. First, simplification and stabilisation would enhance employer engagement and promote evidence-based policy making. Second, examples from other countries can help to create a more workable and simpler system. Third, the proposals of the UKCES on this issue should be supported. Fourth, these proposals need to be further sustained and developed.

Simplification and stabilisation would improve employer engagement

As described above, in England and Wales, policy initiatives, the institutional landscape, qualification and funding systems are very complex. This densely populated and fast-changing landscape of stakeholders and institutions creates difficulties for employers who wish to make use of or engage with the VET system, as almost all stakeholders, including policy makers themselves, have recognised. As a result, employers, and perhaps small employers in particular, will not attempt to try to understand and engage with the VET system, while those who do may do so ineffectively.

A report on employers' views on improving skills for employment prepared by the National Audit Office (2005) stressed that some employers are confused by the range of information, bodies and training promotional material available. During the visits, the OECD visit team heard many complaints about difficulties engaging in these complex and fast changing structures.⁵ Some progress has been made to simplify the system: the UKCES was set up with the remit of simplifying the skills system for employers and its proposals were endorsed by the government; in April, Train to Gain brokerage is now merged with Business link, providing one single access point of help for employers.

Instability is also an obstacle to evidence-based policy making. Rigorous policy evaluation takes time, since it may involve following through medium-term outcomes in the labour market. Therefore, when the policy environment is volatile, evaluations are not available when the next generation of policy initiatives is being prepared. Policy development therefore takes place without a proper foundation based on evidence. While the innovative policy environment in England and Wales is to be welcomed, it needs to be balanced by sufficient stability to bed down and evaluate innovations and policy reform.

⁵ The Chief Executive of the UK Commission for Employment and Skills, Chris Humphries, has been quoted saying that he does not “think that there’s an employer in the land who understands what the new systems are”
www.edexcel.org.uk/VirtualContent/95085/_42__Skills_System_2008.pdf.

Other countries have managed to reduce complexity

Some countries have managed to achieve greater simplicity and transparency. Australia has simplified its institutional landscape and reduced the number of Industry Skills Councils from 29 to 11. There is growing consensus in Australia that the Training Packages on which teaching on VET is based should be simplified. For its part, Hungary has recently reduced the number of VET qualifications from thousands to hundreds.

The proposals of the UKCES on this issue should be supported

Following delivery of this OECD report in draft to the governments of England and Wales in September 2008 the UKCES published in October 2008 its own proposals for simplification of the skills system in England (UKCES, 2008b). This acknowledged widespread employer complaints about the complexity and instability in the skills system and proposed ten linked measures which might be taken immediately to make the system more understandable to employers. It proposes to ‘hide the wiring’ so that some of the complexity will not be visible to employers, who would instead experience relatively simple interfaces with the system. Among other matters the report proposed completion and implementation of the ‘Talent Map’, a framework designed to help employers identify and locate the most appropriate skills or employment service, the brigading of all government skills programmes and initiatives under the single brand of ‘Train to Gain’, and initiatives to reduce bureaucracy.

These proposals have been accepted by the government in England, and we would also endorse them.

These proposals need to be further sustained and developed

At the same time, the UKCES report recognises that hiding the wiring is only a first step. Hiding the wiring is useful to an extent but it is limited because every institution has incentives to engage with employers directly since it is that engagement which very often grants institutions their status and profile in the VET domain. The UKCES Business Plan for 2008/9 (UKCES, 2008a) commits it to “report on whether more radical change is needed to integrate employment and skills services in England Wales and Scotland” with a final report on this issue due in 2010.

In the medium and long term the UKCES needs to be in a position to resist the inevitable pressure on government of all political complexions to launch new and disconnected initiatives. As an employer-led body it should have an interest in reducing complexity so as to make life easier for individual employers. Depoliticising the issue would also help to move towards a less complex and eventually more stable institutional landscape. While simplification will create more instability in the short run, the ultimate aim should be to radically reduce the number of schemes, programmes and institutions and thus achieve greater stability.

Implementation and resource implications

More transparency and simplicity should have a positive effect on resources and can increase employer engagement and investment in the system.

2.3 Raising the skills level of the workforce

The challenge

The Leitch targets

Following the Leitch review, the governments of England and Wales adopted skills targets to be attained by 2020 for a wide range of qualifications. The targets require at least 90% of UK adults to have acquired at least a Level 2 qualification, 68% at least a Level 3 qualification, and 40% at least a Level 4 qualification. Data from 2006 showed attainment to be 70%, 49% and 30%, respectively (HM Government, 2007). VET has a particularly important role to play in reaching the lower-level targets (particularly level 2) by allowing those who do not continue in post-compulsory education, or who drop out of school, to acquire a qualification.

The governments of England and Wales have introduced different measures to support demand-led training to reach the Leitch skills targets. England has the Train to Gain programme, which allows employers to select employees for training towards National Vocational Qualifications (see Box 1.2). The costs of training are fully covered by subsidies. However, the numbers of Train to Gain starts and qualifications achieved remains below the planning targets (LSC, 2008d). Wales aims to increase skills levels through its Workforce Development Programme. This initiative is more flexible and less qualification-driven than its English counterpart.

Besides the subsidy for the costs of training, Train to Gain and the Welsh Workforce Development Programme provide a service to match employers' needs and training opportunities. In Wales, advisers work with employers to determine their priorities and identify skills needs and to help them access relevant training opportunities. The programmes in both England and Wales are demand-led in the sense that training is initiated at the request of employers. In Wales, the Workforce Development Programme does not focus on hard-to-reach employers, but is targeted at priority sectors and businesses and supports employers who already engage in training.

There have been some concerns about the 'deadweight' in Train to Gain, (such that it might fund training which would happen anyway) – and therefore not contribute to general upskilling. While the Train to Gain pilot generated considerable deadweight, the roll-out of the programme seems to be more effective in reaching the desired employers. The proportion of hard-to-reach employers among those engaged through Train to Gain was 74% in May 2008 (LSC, 2008b).

Employer demand for NVQ training is currently insufficient to meet the Leitch targets

Qualifications gained in continuing training are crucial if the Leitch targets are to be reached. Because younger cohorts are better qualified than older cohorts, overall qualification levels will rise naturally by 2020. But projections of Level 2 qualifications show that even taking this effect into account and assuming that qualification rates of young people will improve, the targets will not be met. Only a huge increase in the number of working-age adults acquiring Level 2 qualifications would help. This is particularly demanding, since up to one-third of those who lack Level 2 qualifications are economically inactive (MacInnes and Kenway, 2007) and therefore impossible to reach through Train to Gain, and very probably hard to reach through other programmes.

In 2005, only 17% of employers provided training towards an NVQ for at least one of their employees. The share of employers providing training that does not lead to an NVQ was 48%, while 35% of employers did not provide any training to their workforce. While 16% of small firms provided training towards an NVQ in 2005, this figure was 49% in the case of larger firms (LSC, 2008c).

The current level of employer demand for training leading to NVQs is therefore too low to reach the Leitch targets. Given the scale of the challenge and the required increase in adult training, it is questionable whether without radical additional measures it is realistic to expect employers to engage sufficiently in VET to reach the Leitch targets.

There are tensions between demand-led and government-led aspects

Although both Train to Gain and the Workforce Development Programme are intended to be demand-led, there is some tension between the qualifications subsidised by government through Train to Gain and the skills in which employers are interested. While employers are most interested in Level 3 or Level 4 qualifications, the government's primary aim is to provide level 2 qualifications, as a minimum, to most employees. To some extent this tension between employer demands and government objectives is inevitable. The government argue that the upskilling of those with the lowest skills is both an equity objective and a correction of a market failure which prevents useful investment in the skills of those with the lowest skills. The job of government, it is argued, is to encourage and fund the upskilling of just this group precisely because employers are not very interested in supporting that upskilling.

Despite this point, the tension remains a serious challenge given the government objective of an employer-led system, and the reality that employers need to support the training at least to the extent of releasing staff. More fundamentally, there are real questions about the labour market value of vocational level 2 qualifications, implying that the high level of government investment in them could be misplaced. A series of studies have shown that these qualifications in general reap few labour market returns (Jenkins, Greenwood and Vignoles, 2007; Dickerson, 2006; Roe *et al.*, 2006). The most recent research study on vocational qualifications at level 2 finds few wage returns for men, but some for women, particularly lower ability women. The same study found no effect on employment prospects, but a strong association between the acquisition of the qualification and undertaking further accredited learning. Given the cumulative weight of research studies indicating few returns from this qualification for men, the authors propose further research to understand how this qualification is used in the labour market – exploring in particular the hypotheses that the qualifications merely accredit existing skills, or alternatively that they provide skills not valued in the labour market (De Coulon and Vignoles, 2008). Such factors could of course also lie behind the limited interest of employers in these qualifications.

Recommendation 3

As a way to engage employers so as to reach the skills targets identified in the Leitch report, governments in England and Wales should explore measures including those designed to reduce the cost of training, the establishment of a stronger evidence base to encourage employer support for training, and, possibly, the use of compulsive measures including training levies.

Supporting arguments

Achieving a substantial rise in skill levels in England and Wales is a challenging task. First, better information on the benefits of training to employers will encourage employer engagement in training. Second, some measures may reduce the costs of training to employers. Third, if employer engagement cannot be realised through these and other methods, England and Wales may need to consider compulsory measures, such as training levies or licensing arrangements.

Solid evidence of benefits is needed to support employer commitment to training

Government exhortations to employers will have little impact unless they are backed by evidence. Firms rarely use anything akin to a cost-benefit analysis when making decisions on training (Coopers and Lybrand, 1996) instead typically relying on more subjective judgements (Davidson *et al.*, 1997). The expected cost-benefit balance of training influences firms' willingness to provide apprenticeship places (Mühlemann *et al.*, 2007). As indicated above, research evidence poses some real questions about the labour market function and value of level 2 vocational qualifications. Given the paramount need to engage employers in these qualifications, and the large amount of public expenditure involved, further qualitative research should be undertaken into the labour market value of level 2 qualifications, as recommended by De Coulon and Vignoles (2008), and appropriate curricular reforms introduced if necessary.

At the same time, cost-benefit analysis might also be used to encourage employers to take apprentices. Employers can expect at least two kinds of benefit from apprenticeships: apprentices make a productive contribution to the firm, and apprenticeships represent a low-cost opportunity to train future workers in job-specific skills while learning how well they are able to perform within the firm (Autor, 2001; Clark, 2001). It is therefore essential to disseminate information among employers to allow them to identify the benefits of training (Billett and Smith, 2005).

Cost-benefit analysis can also identify factors that affect the productivity of trainees (on the reasons for differences between the productivity of apprentices in Germany and Switzerland, see Wolter *et al.*, 2006). As noted in the VET policy review of Sweden (Kuczera *et al.*, 2008a), factors affecting the productivity of apprentices include the time spent in the firm, training obligations and regulations, and how the company organises its work processes. Identifying these factors and their relative influence will help firms increase the benefits of training and their willingness to offer training opportunities.

In England and Wales, studies have been carried out on the cost-benefit balance of apprenticeships to employers (Hogarth and Hasluck, 2003) and on the costs and benefits of apprenticeships compared to other vocational qualifications (McIntosh, 2007). Such analyses could be extended to more industrial sectors and used as a policy tool.⁶

⁶ The German Federal Institute for Vocational Education and Training (*Bundesinstitut für Berufsbildung*, BIBB) has developed a sophisticated methodology for assessing the costs and benefits of VET to employers. They have estimated the approximate cost of an externally commissioned research institute at EUR 450 000, plus two full-time staff at the BIBB.

Reduce the costs of training to employers

Reducing the costs to employers of training will encourage them to offer training. The costs include apprentices' wages, mistakes made by inexperienced apprentices and wasted resources, and the time of experienced employees (Richardson, 2005), remuneration of training staff, teaching materials and special clothing, and administrative costs (Rauner, 2007). Any kind of training incurs significant administrative costs, which are particularly burdensome for small and medium-sized enterprises (SMEs), since they often lack the necessary capacities.

Some countries reduce these costs by introducing intermediary bodies to improve the match between the needs of employers and potential trainees. They also take care of the administrative duties involved in training and thereby relieve employers of a considerable burden. Group training organisations in Australia and training offices in Norway are examples (see Box 2.1). They play a particularly important role for small and medium size employers.

Box 2.1 Intermediary bodies to co-ordinate training

Group training organisations in Australia

Group training organisations (GTOs) are not-for-profit organisations supported by Australian state and territory governments, with some charges to host employers. GTOs employ apprentices and hire them out to employers. They sometimes focus on a particular industry, or a particular region. The tasks performed by GTOs include selecting apprentices to suit the needs of employers, arranging and monitoring training both on and off the job, taking care of the administrative duties involved, and ensuring that apprentices receive a broad range of training experience (if necessary, apprentices are rotated from business to business).

Source: www.training.com.au.

For research papers on GTOs see www.ncver.edu.au/publications/bytheme.html.

Training offices in Norway

Training offices (TOs) are owned by companies that provide apprenticeships. One of their key tasks is to ensure that enterprises meet the training obligations prescribed by the curriculum. TOs work actively to identify possible new training companies and establish new apprenticeship places, supervise companies with apprentices and train the staff involved in tutoring the apprentices. Many TOs organise the theoretical part of apprentices' training. Often, TOs sign apprenticeship contracts on behalf of smaller training enterprises, thereby becoming accountable for implementation of the training and its results.

Source: Kuczera et al., (2008b).

Compulsory approaches to training might be considered

As argued in Section 2.1, if employers do not become more fully committed to the Leitch targets, those targets will either have to be abandoned or imposed. Following the latter possibility, England and Wales may need to consider more coercive measures, for instance sectoral or universal training levies. Such levies do not compel employers to train – but effectively “fine” employers who do not train, and therefore provide a powerful incentive. The effectiveness of training levies in achieving various policy goals is mixed (Box 2.2), and careful design and supervision of levies are essential to ensure that they reach desired policy goals. Against a background where UK governments believe that levies should be voluntary and led by employers, DIUS has charged the

UKCES to look at collective measures to engage employers and a UK Project Advisory Group has been established to steer the project.⁷ UKCES has a further remit to examine the ways in which collective measures, within different sectors and occupations, may support improvement in skills and in economic performance.

Licensing and occupational certification constitute another compulsory approach. These are typically used to address the inherent health and safety risks of certain occupations, but may also be used to compel employers to commit more to training (Billett and Smith, 2005). At the same time, broadening licensing arrangements in order to encourage training may compromise the original purpose of such licensing, *i.e.* to ensure health and safety (Billett and Smith, 2003).

Box 2.2 The objectives and effectiveness of training levies

Training levies may be used to pursue several overlapping policy goals, such as raising revenue for public policy initiatives; increasing training levels beyond what is provided by firms; promoting a more equitable distribution of training opportunities among employees; and improving the distribution of the training effort among industry sectors (Billett and Smith, 2005). International evidence on the effectiveness of training levies for these purposes is mixed.

- Training levies may promote employer-based training and give employers more freedom to manage their training activities (Gasskov, 2003), while allowing public authorities to influence the profile and quality of training by defining the conditions of eligibility for funds from the levy (Dar, Canagarajah and Murphy, 2003).
- However, training levies also involve a deadweight effect when they subsidise training that would have been provided anyway (Dar, Canagarajah and Murphy, 2003). In this case, they are simply a windfall for the firms concerned (Gasskov, 2003).
- Evidence also suggests that universal training levies are ineffective in ensuring an equitable distribution of training opportunities: firm size and employee characteristics shape access to training (Billett and Smith, 2005). The administrative procedures associated with claiming reimbursement or setting expenses against the levy contribution are often complicated and may discourage smaller firms from filing claims (Edwards, 1997). Large firms with well-established training programmes benefit disproportionately from the levy (Gasskov, 1998).
- Empirical evidence on the French levy scheme indicates that training opportunities are skewed in favour of large firms and more highly skilled employees, while small firms and employees with lower skills are less likely to benefit (Goux and Maurin, 1997). Similarly, the Korean training levy encouraged skills development, but large companies benefited more than SMEs, even though the system included a special incentive for SMEs (Lee, 2006).

Training levies require careful supervision. Otherwise it is hard to ensure that the quality of the training funded through the levy is sufficient. Unfortunately, the supervision of training quality is sometimes carried out by tax auditors or departments that may lack the necessary expertise. Conversely, effective quality control implies significant costs both for regulating authorities and the firms being regulated (Dar, Canagarajah and Murphy, 2003).

⁷

The UK Government and devolved administrations have said that they are prepared to consider arrangements for introducing levy arrangements in any industry where this is the preference of the majority of employers on the basis that such arrangements should be voluntary and led by employers. Currently there are three Industry Training Boards covering the Construction, Engineering Construction and Film sectors.

Implementation and resource implications

Evaluation of these measures is important. In particular, it will be very important to establish whether measures designed to increase the net benefits of training, and to make those net benefits more transparent to employers, alongside the range of other measures currently being pursued by the government, will successfully increase employer demand for training. If they do, then it will become feasible to envisage realising the Leitch targets through an employer-led approach. If they do not, then as discussed earlier, the government will have to decide whether to abandon the Leitch targets or pursue more coercive approaches, which, as discussed here, have many drawbacks.

2.4 Supporting employer engagement through a stronger apprenticeship system

The challenge

The terms of reference of this review formally exclude the issue of apprenticeships, primarily because another apprenticeship review was under way at the time the terms of reference were agreed (DIUS and DCSF, 2008). However, evidence from many countries suggests that strong apprenticeship systems are closely linked to the strength of employer engagement in VET more generally.

Recommendation 4

Attempts to foster employer engagement in England and Wales should be closely linked to the development of the apprenticeship system.

Supporting arguments

This recommendation is supported by the experience of other OECD countries, demonstrating a strong link between well developed apprenticeship systems and employer engagement.

Employer engagement in VET and strong apprenticeships tend to go hand in hand

If employers take apprentices, they will not only be concerned with the day-to-day management of those apprentices, but also by the broader competencies which apprentices are expected to acquire. As a result, they have a big stake in numerous features of the VET system, such as the curriculum and the qualification framework. This will encourage employers to engage in different aspects of VET (see Table 2.2).

Empirical evidence tends to confirm this story. In dual system countries (e.g. Germany, Switzerland and Austria) strong apprenticeship systems are combined with very active employer engagement in VET. Norway dramatically strengthened employer engagement in VET when it introduced its modern apprenticeships system in the early 1990s. Conversely, Sweden does not have an apprenticeship scheme (although one is mooted) and employers are weakly engaged in VET. Similarly, Australia and the United Kingdom share many features, but Australia has a strong apprenticeship system and employers are relatively well engaged in VET, while apprenticeships play a lesser role in England and Wales.

Table 2.2 Social partners' involvement in VET in selected OECD countries

Estimated percentage of VET upper secondary programmes in which social partners have an advisory or decision-making role, by different aspects of VET

	Curricula		Practical training content		Duration of practical training		Number of students in VET		Acquired competencies		Examination requirements		Delivered qualifications	
	D	A	D	A	D	A	D	A	D	A	D	A	D	A
Australia	0	0	•••	•••	•••1	0	0	•••2	•••	0	0	0	•••	0
Austria	••	•••	••	•••	••	•••	0	0	••	•••	••	•••	•	•••
Norway	0	••••	3	0	0	••••	0	••••	0	••••	0	••••	••••	0
Sweden	0	••••	0	••••	0	••••	0	0	0	••••	0	••••	0	••••
Switzerland	••••	0	••••	0	••••	0	4	0	••••	0	••••	0	••••	0

Note:

- 1-25%
- 26-50%
- 51-75%
- 76-100%

D – decision-making role; A – advisory role

Total score in each category might be bigger than 100%. This is because social partners involved at different levels may have a say in the same aspects of VET. For example, in Denmark, the Advisory Council for Vocational training (REU) has advisory status towards the Minister of Education (national level). The Council advises on the overall structure of the system. At local and sectoral levels sectoral trade committees and local trade committees can decide on many elements of VET within the overall structure.

1. The role, ranging from decision-making to none depends on industry, occupation, etc.
2. The role, ranging from advisory to none depends on industry, occupation, etc.
3. The apprenticeship model (2+2) for VET consists of two years at school and two years as apprentice in a company. Figure refers to apprenticeship component of the programme.
4. Students taking part in VET programmes are free to choose the programme. But it is the business that provides apprenticeship places. Therefore students can only enter the programmes if there are enough available places in the apprenticeship.

Source: OECD (2008).

These results suggest that employer engagement should be linked to the development of an apprenticeship system. The two governments share this objective. The recently published apprenticeship review (DIUS and DCSF, 2008) highlights some weaknesses of apprenticeships in the United Kingdom and points to the need to strengthen apprenticeships in order to reach the Leitch targets. They have set out the intention to establish a National Apprenticeship Service, and proposed legislation has been published as a draft Bill. The Children, Skills and Learning Bill is being prepared to provide a statutory framework for apprenticeships. In England, there were around 225 000 apprenticeship starts (of all ages) in 2007/8, a marked increase of more than 20% on 2006/7. The government has set a target of 130 000 completions by 2010/11. In 2009, the government is spending over GBP 1 billion delivering apprenticeship places. In 2007/8 112 600 people successfully completed apprenticeship frameworks, marginally (0.7%) up on 2006/7 (The Data Service, 2008).

At the same time, the apprenticeship model is not used in England and Wales as extensively in some other countries.⁸ While dropout rates were higher than in many other countries when assessed in West, (2004) completion rates have since risen from 38% in 2004/5 to 64% in 2007/08.

Implementation and resource implications

Linking a stronger apprenticeship system to employer engagement carries no direct cost implications, and it should improve the overall efficiency of VET initiatives. The development of a strong apprenticeship system in the United Kingdom will continue to require substantial investment.

2.5 Competition in the provider market

The challenge

The Leitch review argued that the VET system should become more demand-driven. Demand may be articulated through markets in training in which students and employers choose among training providers. (Demand can also be articulated in non-market terms, for example through employer engagement in defining curricula.)

England's Train to Gain programme requires skills brokers to offer employers a selection of three training providers able to deliver the recommended suite of courses. In 2004-05 1 160 institutions delivered work-based training, the majority of which were private providers. Many are well positioned to move into the expanding market for work-based learning⁹ through the increased funding available under Train to Gain and the Welsh Workforce Development Programme. The latter also has considerable scope for private training providers to capture a significant part of the market, although Wales tends to place less emphasis on opening the market to competition.

The English skills accounts, which provide vouchers for individual students to spend with an accredited provider of their choice, have been introduced by the government in England to increase individual learner choice. Before they are fully rolled out in 2010, skills accounts are being tested in two regions from autumn 2008. In addition, employer-specific qualifications, such as the McDonalds and FlyBe programmes have been introduced partly as a means of exposing the business of qualification-awarding to some market competition.

The move towards opening the markets has been halting, and evaluation has been limited. Whether competition is realising its objectives is therefore unclear.

⁸ Some indicative figures suggest that apprentice numbers, in relation to population size, are much lower in the United Kingdom than in Switzerland Germany Austria and Australia, and significantly lower than in Finland, the Netherlands, Norway, Denmark and France. They are higher than in the United States (see www.ncver.edu.au/research/proj2/mk0008/internat.htm.)

⁹ Train to Gain funding is planned to rise from GBP 270 million in 2006-07 to GBP 1 042 million in 2010-11. Learner numbers are forecast to rise from 242 000 to 807 000 over the same period.

Recommendation 5

Governments in England and Wales should take account of previous experience, including international experience, when extending the market in VET provision. In particular, users need good information about the quality of different programmes and institutions, building on the existing initiative of the Framework for Excellence.

Supporting arguments

There are three arguments in support of this recommendation. First, the use of markets should be a pragmatic decision based on the circumstances. Second, it should be monitored and informed by international experience to avoid unintended consequences in terms of equity or quality. Third, without good quality information, users cannot make appropriate choices and mismatches and distortions may arise.

Provider competition should be a pragmatic decision

There is a large research literature on school competition (*e.g.* Bradley, Johnes and Millington, 2001). In principle, given perfect markets, competition enhances efficiency and cost effectiveness and improves performance and the responsiveness of the system to students' needs. Conversely, competitive pressures, given imperfect markets and imperfect information, may damage quality (because costs are obvious but quality is not). Open competition may create monopolies in some places and allow provision to collapse in others. The effect is to limit both the quality and quantity of provision for hard-to-reach and disadvantaged students, because meeting the needs of these groups is particularly costly (Bradley and Taylor, 2002).

The implication is that competition among providers should be developed when and where it proves of value. One study suggests that the combination of the market with other factors, including school autonomy and strong external accountability measures, produces the best results (Wössmann *et al.*, 2007).

Reforms should be informed by evidence

Potential challenges to a more open market in training provision include:

- ‘Thin’ markets, such as in certain smaller sectors, or rural areas, where the potential for real competition is weak or non-existent. Several Australian states have developed strategies to deal with thin markets either by restricting the number of training providers, or by defining priority areas to intervene (Ferrier *et al.*, 2008).
- “Default” provision and the issue of whether the public sector retains responsibility for looking after students in mid-course when a private provider fails (and the funding of this responsibility).
- Whether the effect of open markets is to weaken access and quality for disadvantaged students or students with immigrant backgrounds. In the case of thin markets it can lead to reduced choice because providers are reluctant to enter the market.
- Whether sufficient information is available on the quality of providers to support informed choice (see below).

One common issue is whether the public sector or public providers retain a responsibility for ensuring a good range of provision for all students, leaving private providers free to pick off profitable niche markets. This is a live issue in Sweden (see Kuczera *et. al.*, 2008a). Conversely, existing buildings and capital infrastructure, possibly combined with some economies of scale may give the public sector an inbuilt competitive advantage, inhibiting entry to the market of potentially more efficient private providers.

Customers need good information on the quality of providers and training outcomes

For an open market in training customers need to be in a position to make informed choices among providers. Quality provision may however be very difficult to identify and assess. England already has a range of supporting initiatives in place which aim to raise standards and make them more transparent:

- Centres of Vocational Excellence (CoVE), an accreditation scheme for providers involved in work-based learning, under which 400 providers have been accredited.
- The Training Quality Standard for employer responsiveness and vocational excellence, a new voluntary quality standard which will supersede CoVE (both the Training Quality Standard and CoVE are England only). It is constructed to respond to the needs of employers as individual customers and to address particular sector needs.
- A network of national skill academies (of which there are presently ten), training providers that are co-owned by government and employers in a given sector and recognised as deliverers of high quality and relevant training for the sector. They are performance monitored by the Learning and Skills Council (LSC).

To meet the demand for information on the quality of providers, the LSC has introduced the 'Framework for Excellence'. This programme is designed to collect information to assess provider performance that will underpin a new simplified performance assessment system linked to clear standards. It is intended to support moves towards a demand-led funding system by sharing details about a provider's performance with learners and employers to help them choose the right learning experience. It is expected to support planning and commissioning decisions and support the drive to ensure that funding follows customer choice. It is anticipated that the data will come from multiple sources, but critically including a learners' destinations survey and an employers' survey. A pilot exercise has been conducted (LSC, 2008e). In Australia for instance, results from a student destination survey, the Student Outcomes Survey run by the Australian National Centre for Vocational Education and research (NCVER),¹⁰ covers student satisfaction with VET. Such information helps users to make the right choices.

Implementation and resource implications

Monitoring of markets is crucial to avoid negative unintended consequences. It might reveal, for instance, why Further Education Colleges are not yet making extensive use of Train to Gain funding and the consequences of more open markets on certain (disadvantaged) student groups.

¹⁰ www.ncver.edu.au/statistic/21065.html.

2.6 Tools for evidence-based policy

The challenge

When looking at the issue of employer engagement, the OECD team was struck by a number of issues where data and analysis, particularly from international sources, could be used more fully to advance policy making in England and Wales. These include funding principles and the costs and benefits of apprenticeships to employers.

The management of VET analysis in the United Kingdom is fragmented, with small amounts of analytical capacity spread across the many different agencies involved. As from April 2008 in England The Data Service was established as an independently managed organisation funded by DIUS to act as a central point for information and statistics on further education (including many aspects of vocational education and training). The UKCES also has the brief to undertake research on VET, although this function is lodged alongside some operational responsibilities.

Recommendation 6

England and Wales should take account of international evidence more routinely in its policy-making process. Consideration should be given to the establishment of a national VET institution to oversee VET research and analysis.

Supporting arguments

This recommendation is supported by two arguments. First, most countries face very similar problems in the realm of VET and learning from their experience could provide valuable support. Second, drawing on international experience, an institution responsible for research and analysis could help to advance VET policy making.

The UK could learn more from other OECD countries facing similar policy challenges

Several examples illustrate this point:

- There are potential inconsistencies in postsecondary funding principles in many countries that have allowed higher education funding regimes to develop independently of postsecondary VET funding, with no clear rationale for the differences emerging.
- The OECD team heard that administrative records of individual learners contain a lot of information but cannot be linked to employment data. Initiatives to improve this through a unique learner number that allows gathering long-term evidence on individuals' careers are under way. The experience of other OECD countries – particularly the Nordic countries with national register data – may be relevant here. In Sweden a central population register including a unique personal identifier and some basic personal information is linked to other individual-level administrative data covering labour market information such as income and educational status. This allows individuals or groups to be tracked throughout their careers and provides valuable information on the VET system's labour market responsiveness.

- Good economic analysis can encourage employers to invest more in training. Switzerland uses results from a cost-benefit analysis showing that employers reap net benefits by taking on apprentices to convince employers to do so. England has collected good evidence on costs and benefits and some analysis has been published (Hogarth and Hasluck, 2003). However, more use could be made of this type of evidence both in policy making and to make a business case to employers.
- Other VET issues extensively discussed in other OECD countries from which England and Wales could learn include training markets (see Section 2.5), experience with training levies, and the design of apprenticeship schemes (see Sections 2.2 and 2.3).

The most striking parallels are between the United Kingdom and Australia, given the priority attached by both countries to increasing overall skills, making the system more demand-driven and increasing competition. Systematic bilateral contacts would be beneficial.

Consideration should be given to the establishment of a national institute for VET research and analysis

Various OECD countries have established national VET centres. Their respective remits range from that of co-ordinating the collection of VET data and evidence, to analysis of the data and research, to government advice and support in development of VET regulations. Different models are presented in Box 2.3.

Box 2.3 National VET centres in OECD countries

Australia. The National Centre for Vocational Education Research (NCVER), founded in 1981, is a not-for-profit organisation owned by federal, state and territory ministers responsible for vocational education and training. It employs over 80 persons. NCVER's main tasks are: *i*) collecting VET statistics; *ii*) managing the national VET research grants; *iii*) managing a VET research database; *iv*) disseminating the results of research and data analysis; *v*) building links with similar organisations in other countries; and *vi*) undertaking commercial consultancies. These various activities are financed mainly (85%) by the Department of Education, Employment and Workplace Relations (DEEWR), other revenues come from other state bodies and private consultancy activity (NCVER, 2007).

Austria. The Institute for Vocational Education and Training Research (*Österreichisches Institut für Berufsbildungsforschung, ÖIBF*) was established in 1970 through an initiative of employee associations and the Ministries of Labour and of Science and Research. This non-profit institute, employing around 10 staff, aims to facilitate a better understanding of VET in Austria and promote interdisciplinary research in the field. Its research activity centres around: *i*) initial and continuing VET, including at tertiary level; *ii*) career guidance; *iii*) evaluation of individual programmes and institutions; *iv*) labour market analysis; *v*) new teaching and learning methods; and *vi*) the economics of VET (ÖIBF, 2008).

Czech Republic. The Czech National Institute of Technical and Vocational Education has a function similar to that of the Hungarian NIVE described below. However, it concentrates more on the development of teaching materials and other implementation-related issues (NITVE, 2008).

Box 2.3 National VET centres in OECD countries (Cont.)

France. The Centre for Research on Education, Training and Employment (*Centre d'études et de recherches sur les qualifications, Céreq*) was established in 1971 with the aim of assisting national and regional public authorities, occupational branches, and social partners in developing and implementing VET and human resource management policies. In 1985, Céreq became an autonomous public institution under the Ministries of Education and Labour. Since then, it has enlarged its scope acquiring new fields of research and developed a growing network of associated regional centres. Today, it fulfils five main tasks: *i*) developing international and *ii*) regional VET research networks; *iii*) researching and analysing the French VET system as ministries request; *iv*) producing regular employment and qualifications forecasts; and *v*) managing a VET documentation centre (Céreq, 2008).

Germany. The Federal Institute for Vocational Education and Training (*Bundesinstitut für Berufsbildung, BIBB*) founded in 1970 is funded by the Federal Ministry of Education and Research. It employs around 500 staff; its decision-making bodies include representatives from employer and employee associations, federal and state governments. Its main tasks are: *i*) analysing labour market trends, particularly future skills needs; *ii*) compiling general statistics and conducting research on the German VET system; *iii*) managing several VET research databases; *iv*) supporting training enterprises and VET training centres through targeted training programmes (e.g. JOBSTARTER, STARegio); *v*) contributing to the development of qualification frameworks; and *vi*) engaging in international co-operation (BIBB, 2007a and 2007b).

Hungary. The National Institute for Vocational Education (NIVE), established in 2006 through the integration of a number of separate VET institutes, is a government funded research centre which also has an active role in VET policy development and implementation. It raises funds through commercial activities (a maximum of 20% of its total budget). NIVE's main tasks are diverse and encompass: *i*) developing examination and teaching material; *ii*) managing the Labour Market Fund raised through training levies and other smaller VET development funds; *iii*) evaluating vocational training institutes; *iv*) disseminating best practice; *v*) collecting VET data and managing the resulting database; *vi*) organising training for VET teachers; and *vii*) accreditation of training providers. It employs more than 100 people and commissions research projects (NSzFI, 2008).

Korea. The Korean Research Institute for Vocational Education and Training (KRIVET), established in 1997, is a government-funded research institute whose purpose is to inform VET policy making and to disseminate VET-related data and knowledge. It has 130 full-time researchers. Its main tasks are: *i*) analysing national VET policies; *ii*) supporting the network of VET stakeholders; *iii*) developing and propagating VET programmes; *iv*) conducting research on qualifications systems; *v*) evaluating vocational training institutes; *vi*) carrying out regular labour market analysis and managing the resulting database; *vii*) providing career guidance; and *viii*) promoting international co-operation (KRIVET, 2007).

Switzerland. The Leading Houses (LHs) are a network of government-funded long-term research projects attached to one or more higher education institutions. Their purpose is to address gaps in the Swiss VET evidence base and to build up a VET research community. Since 2004, six LHs have been commissioned by the federal Office for Professional Education and Technology which also determines uniform performance assessment standards. They cover: *i*) the quality of vocational education and training; *ii*) learning strategies; *iii*) the economics of firm behaviour and training policies; *iv*) economics of education: transitions, skills and labour; *v*) new media and technologies; and *vi*) social competences (already completed). International advisory boards prevent too narrow a research focus and LHs are required to open up parts of the projects for public tendering to foster competition (OPET, 2008).

Box 2.3 National VET centres in OECD countries (Cont.)

United States. The National Research Center for Career and Technical Education is similar to the above institutes but with a much more limited scope because many responsibilities for VET are delegated to state level, and state VET systems are very diverse. Several competing private and public organisations already provide valuable research on VET aiming to inform policy making.

Implementation and resource implications

The UKCES might in principle oversee the national centre for VET research and analysis. This would help ensure any national centre's independence from the government as well as its role as a cross-UK institution. This institution could also be put in charge of creating links to other national VET institutions and contribute to the exchange of ideas and evidence. The counterpart to an independent centre for data and analysis is a capacity, within government, to inform policy development with relevant analysis and statistics. Given the split of the former Department for Education and Skills (DfES) into two separate Departments, DIUS and DCSF, and the subsequent merging of DIUS into BIS, sufficient capacity should be retained in each Department to provide sound analytical work on which policy making can be based.

Establishing a government-funded national VET institute implies some additional costs¹¹ but given the very large investment in delivering the Leitch targets, this would represent a good investment.

¹¹ Two of the most important VET institutions had the following annual budget figures in 2006 (in USD, using May 2008 PPP exchange rates): the NCVER, USD 12 874.62, the BIBB, USD 86 113.97 (the BIBB has operational as well as analytic responsibilities).

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Annex A

1. Terms of reference for England and Wales

The review will focus on employer engagement in VET in England and Wales (excluding apprenticeships), as a method of improving the responsiveness of VET systems to labour markets. This will examine (in the context of the VET system in England and Wales) the available evidence on the patterns and volumes of employer engagement in VET; the effectiveness of employer consultative mechanisms in the planning and shaping of VET provision (including employer involvement in the qualification frameworks to meet their needs); and establishing how to make more effective the mechanisms which match skills demand and supply.

The review will look at how well these mechanisms work, provide international examples of how different countries have sought to secure that engagement, and identify policy issues covering how employer engagement might be improved to enhance the responsiveness of the VET systems in England and Wales to labour market needs.

2. Biographical information

Mark Cully is General Manager at the National Centre for Vocational Education Research where he oversees a national programme of government-funded research aimed at improving policy and practice in Australia's vocational education and training sector. Prior to joining the Centre in 2003, Mark was a Senior Research Fellow and Deputy Director at the National Institute of Labour Studies. Between 1995 and 1999 he headed research and evaluation on employment relations for the UK government, where he ran the 1998 Workplace Employment Relations Survey, the results of which were published as *Britain at Work* (Routledge, 1999). Mark has a Master's degree in industrial relations from Warwick University and an Honours degree in economics from Adelaide University. He was chair of the world-renowned Adelaide Festival of Ideas from 2004-2007.

Simon Field has worked since 2001 in the Directorate for Education, OECD on issues including vocational education and training, equity in education, and human capital. His previous career in the UK civil service included a period heading the division for higher education, evaluation and international issues in the Department for Education and Skills, while in the Home Office he was responsible for creating and leading an Economics Unit, bringing the tools of economic analysis to bear on criminal justice issues. He holds a Ph.D. in philosophy and social policy from the University of Cambridge and an M.Sc. in economics from Birkbeck College London. He was born and brought up in Belfast and holds joint British/Irish citizenship.

Gábor Halász is professor of education at the Faculty of Pedagogy and Psychology of the University Eötvös Loránd in Budapest where he heads a Centre for Higher Educational Management. His research fields are education policy and administration, comparative and international education, and theory of education systems. As an education policy expert, he took an active part in Hungary's educational changes in the 1990s. He is one of the founders and currently president of the Board of the Hungarian School for Education Management established in 1998. He actively participates in the professional training of Hungarian principals, and he took part as an adviser in curriculum reform and the development of the system of evaluation and performance measurement in Hungary.

Kathrin Hoeckel is a policy analyst in the OECD Directorate for Education where she works on 'Learning for Jobs' - the OECD programme of work on Vocational Education and Training. She is responsible for several country reviews and for analytical work on costs and benefits in VET. Prior to this activity, Kathrin worked on the issue of school leadership (*Improving School Leadership*, 2008) and took part in writing the final comparative report and disseminating the findings of a thematic review on adult learning (*Promoting Adult Learning*, 2005) at the OECD. Before joining the OECD, she worked in the field of development co-operation, inspecting and evaluating development projects of local NGOs in Morocco (including on special education and vocational education and training) and carried out a research project with field visits on post-war reconstruction and state-building in Lebanon. Kathrin holds a M.Sc. in history and political science from Munich University (Germany) and a Master's degree in public administration from the London School of Economics and Political Science. Kathrin is of German nationality.

Viktória Kis is a policy analyst at the OECD Directorate for Education, where she works on 'Learning for Jobs' - the OECD programme of work on Vocational Education and Training. She is responsible for several country reviews and for analytical work on the quality of VET. Prior to this project, she worked on the Thematic Review of Tertiary Education and is the author of “Quality Assurance in Tertiary Education: Current Practices in OECD Countries and a Literature Review on Potential Effects”. Before joining the OECD as a consultant to the World Bank she worked on the evaluation of a school grant programme in the former Soviet republic of Georgia. She also co-ordinated a meeting of the “Global Learning Network of Producer’ Organisations” at Rimisp – Latin American Centre for Rural Development in Chile. She holds a Master’s degree in International Affairs from Sciences Po Paris and an M.Sc. in Educational Research Methodology from the University of Oxford. She is a Hungarian and Vietnamese national.

3. Programme of the review visits

First visit, 18-22 February 2008

Monday 18 February, London

Meeting with Train to Gain skills broker and training provider
Meeting with David McVean, Deputy Director DIUS
Meeting with Simon Nathan, CBI Senior Policy Advisor
Meeting with Chris Humphries, Chief Executive UK Commission for
Employment and Skills
Meeting with Fiona Jordan, Deputy Director DCSF
Meeting with David Lammy, Parliamentary Under Secretary of State for Skills

Tuesday 19 February, Sheffield

Visit to training provider
Meeting with Heidi Adcock, Deputy Director DIUS
Meeting with representatives from Integrating Employment and Skills team,
DIUS
Meeting with representatives from Cogent, the SSC for Nuclear and Process
Industries

Wednesday 20 February, Sheffield

Meeting with Tim Down, Deputy Director Sector Skills and Equality DIUS
Meeting with statisticians and researcher from DIUS, SSDA and the LSC
Meeting with Paul Cohen, Deputy Director Vocational Qualifications Reform
DIUS

Thursday 21 February, Cardiff

Meeting with representatives from DCELLS on context, strategy and policy
Meeting with researchers and experts
Meeting with SSDA Wales, Careers Wales, Wales Skills Board
Meeting with representatives from DCELLS on qualifications
Wrap-up with Gren Jackson, Head of Skills, Business and Employability
Division, DCELLS

Friday 22 February, London

Meeting with John Landeryou, Director Improvement, DIUS
Video conference with Mike Campbell, SSDA
Meeting with Peter Beasley, E-skills SSC
Wrap-up session with Stephen Marston, Director General for FE and Skills,
DIUS

Second visit, 24 June 2008

Tuesday, 24 June, London

Meeting with Chris Humphries, UK Commission for Employment and Skills

Meeting with representatives from DIUS

Meeting with providers, SSCs and brokers

Researcher and expert seminar

Learning for Jobs

OECD Reviews of Vocational Education and Training

England and Wales

For OECD member countries, high-level workplace skills are considered a key means of supporting economic growth. Systems of vocational education and training (VET) are now under intensive scrutiny to determine if they can deliver the skills required.

Learning for Jobs is an OECD study of vocational education and training designed to help countries make their VET systems more responsive to labour market needs. It will expand the evidence base, identify a set of policy options and develop tools to appraise VET policy initiatives.

In England and Wales, a substantial commitment, backed by increased resources, has been made to the enhancement of workplace skills. Policy-making is self-evidently dynamic and innovative and governments are making conscious attempts to improve employer engagement – the particular topic of this report.

At the same time there are a number of challenges – in particular that of linking enhanced employer engagement to a strong apprenticeship system, and of overcoming the obstacle of a complex and unstable institutional environment.

The report recommends:

- Support for the work of the UK Commission for Employment and Skills designed to simplify and stabilise the institutions of the VET system.
- Linking employer engagement to the development of the apprenticeship system.
- Taking account of international experience more routinely in policy-making.
- Enhanced measures to reach the skills targets identified in the Leitch report.

OECD is conducting country VET policy reviews in Australia, Austria, Belgium (Flanders), the Czech Republic, Germany, Hungary, Ireland, Korea, Mexico, Norway, Sweden, Switzerland, the United Kingdom (England and Wales), and the United States (South Carolina and Texas). Special studies will also be undertaken on Chile and the People's Republic of China. The initial report of *Learning for Jobs* will be available on the OECD website in 2009. The final report on the study's findings will be published in 2010.

Background information and documents are available at www.oecd.org/edu/learningforjobs